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SIA

Foreign Activity

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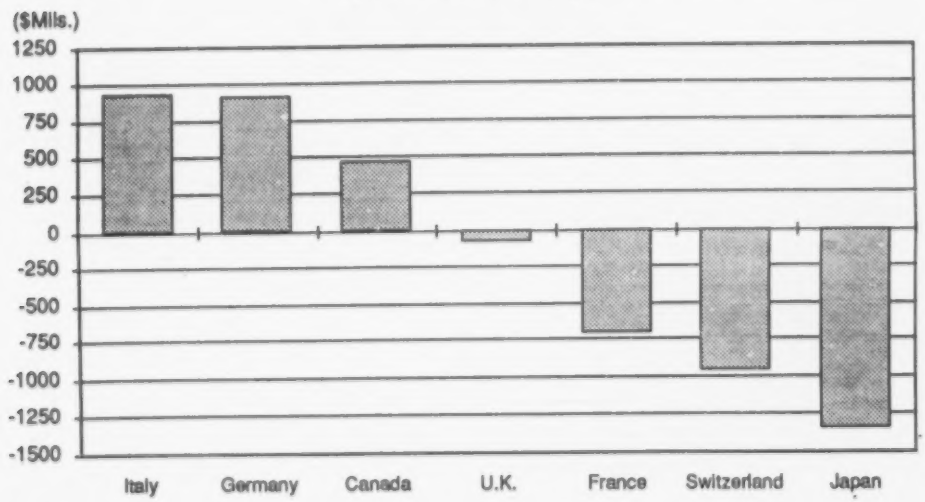
U.S. Investor Interest In Foreign Markets: Spreading The Wealth

Due to significant net sales in Japan, France and Switzerland, amounting to nearly $3 billion, U.S. portfolio investment was a rather modest $355 million during 1Q90. This is sharply below 1989's feverish pace, when net purchases averaged nearly $3.5 billion per quarter. However, we believe the net outflow figure in 1Q90 is misleading and we cannot conclude that U.S. investors are returning to their past lukewarm attitude towards foreign equities. Instead, net activity seemed to reflect the shifting of large pools of assets from one country to another as U.S. investors sought to take advantage of rapidly shifting investment opportunities; record quarterly gross transactions of over $72 billion support this notion.

Net Activity In Foreign Equities By U.S. Investors During 1Q90



Investment In Europe

Despite a $900 million sell off of Swiss equities, and an additional $700 million in the French market, net investment in Europe totalled $505 million. U.S. money contin-

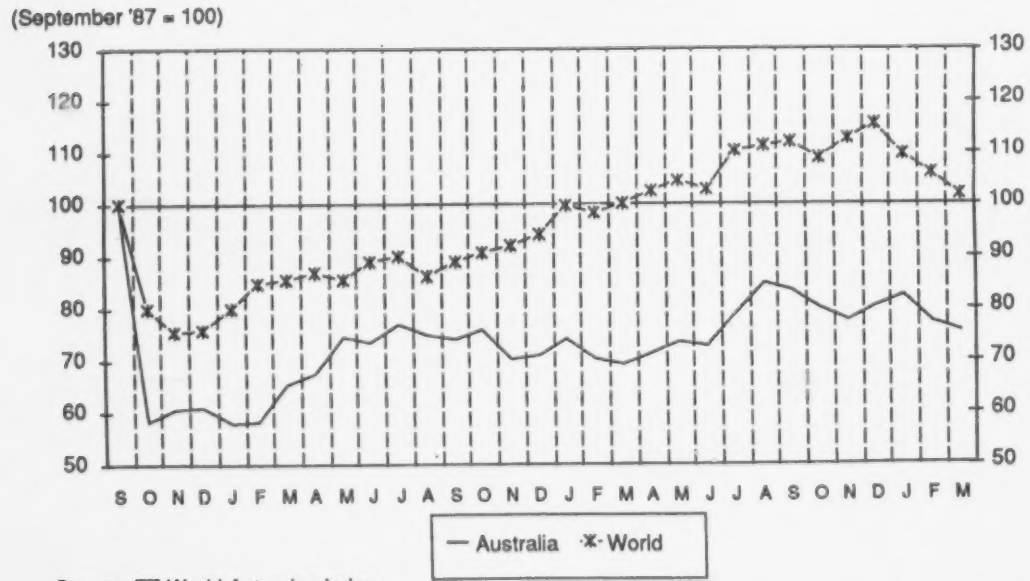
ued to pour into Germany during the first quarter of 1990, with net purchases reaching a record $903 million, nearly $400 million above the previous quarter's high of $555 million. The 1Q90 also marked a record high in terms of gross activity. At nearly $4 billion, U.S. investors easily exceeded the previous high of $2.7 billion reached in 2Q87. As mentioned in a previous issue of *ICMR*, total net foreign investment in West Germany in 1989 and the early parts of 1990 has been nothing short of spectacular.

Another EC country, Italy, was the recipient of $931 million in U.S. funds. With Italian equity prices showing weakness during 1Q90, U.S. investors may have seen this as a buying opportunity. In addition, U.S. investors paid little attention to Italy during the second half of 1989 and 1Q90 investment may reflect allocation decisions. This record inflow may have also been in anticipation of measures to be taken by the Italian Government, such as elimination of the last restrictions on cross-border capital flows (May 1990) and the liberalization of bank branches for foreign firms. In addition, in February of 1990, the Italian SEC opened the way for the quotation and trading of foreign equities on the Milan Stock Exchange. As has been the case in other EC countries, U.S. investors seem to be concentrating large sums of equity capital in hopes of benefiting from a European economic renaissance.

From South Of The Border To Down Under

U.S. investors took an extraordinarily positive attitude in Mexico and Australia during the first quarter. The Australian market never seemed to recover from the 1987

A Look At Australian Equity Prices
Nearly Three Years After The Crash



Source: FT-World Actuaries Index

market crash. For instance, equity trading volume in 1989 was $44.8 billion, down 23.9% from 1987's $58.9 billion. This compares to a 27.4% increase in world equity trading volume. Similarly, Australian market capitalization ended 1989 at $136.6 billion, some 20% less than the $171.8 billion at the end of 1987. During this same period, world equity capitalization expanded some 48% to $11.7 trillion. Indeed, Australia is one of only two developed markets not to yet rebound from 1987 levels. So, by most measures, the post-crash performance in the Australian market has been lackluster, with Australian equity prices still 20% below its September 1987 levels. U.S. investors may have seen a buying opportunity in this market. Net purchases at $273 million in Australia were double that of any previous quarter.

Looking South of the border, where Mexican equity prices (U.S. dollar terms) soared over 18%, U.S. net purchases of Mexican securities totalled $86 million during 1Q90. It is possible that the market-oriented policies of the Salinas government, such as the privatization of state enterprises and tax reform measures, may be enticing those U.S. investors looking for above average returns. In addition, while no evidence we know of exists, this may also indicate the return of "flight capital" to Mexico. Talk of a possible U.S./Mexican Free-Trade Agreement (Mexico happened to be our third largest trading partner in 1988) may spur additional inflows.

With the number of the countries receiving significant amounts of U.S. investment widening, the U.S. investor seems to be looking to further diversify his portfolio while looking for high growth opportunities to bolster returns. Countries which move along the path of stability and market-based economies, such as Mexico, Spain and Italy, will reap the rewards of foreign investment. Also, the U.S. investor may finally be a willing player in the international investment arena.

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